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1 August 1951

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39

DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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- "A" - items indicating Soviet-Communist intentions or capabilities
- "B" - important regional developments not necessarily related to Soviet/Communist intentions
- "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"B" USSR. Greek Orthodox Patriarch currently visiting Moscow to discuss expropriation of property. Patriarch Alexandros of Antioch arrived in Moscow on 20 July avowedly to discuss compensation for confiscated church property. The Soviet Union is apparently seeking to delay any decision on compensation in order to influence the Patriarch. Meanwhile it is taking propaganda advantage of his visit: Izvestia played up his approval of the Stockholm Appeal, and the US Embassy in Moscow considers that more use will be made of his peace pact support in propaganda to the Near East. (C Moscow 150, 27 July 51).

Comment: The USSR's stepped-up efforts to utilize the Near East Orthodox Church as a means of spreading Soviet influence and power in that area have been noted for over a year, but the USSR has apparently not yet succeeded in achieving control of any group. Most Orthodox Near East communities appear to oppose Communism and view Soviet activities with suspicion, with the possible exception of the Patriarch of Antioch. According to several sources, however, he actually travelled to Moscow to seek compensation for the loss of revenue. The Archbishop of Istanbul, firmly anti-Communist and believed to be a top figure in the Near East Orthodox hierarchy, recently assured US officials that Antioch would not "stray from the fold."

"B" Naval tradition applauded at Navy Day celebration. In a lecture commemorating Navy Day, Major General Korniyenko recalled what he termed the rich revolutionary tradition of the Russian Navy. According to him, from the very beginning of the October revolution Russian sailors were counted among its shock detachments.

General Korniyenko also claimed that no other navy in the world has made such great contributions to the development of science and culture. He cited as examples the 85 expeditions undertaken in the Pacific alone during the last half of the eighteenth century, and asserted that more than 30,000 kilometers of Arctic and Pacific coastline, islands and archipelagoes, a "considerable" part of the American continent's coast, and many areas of Asia, Africa and the Antarctic continents were discovered, surveyed and described by Russian navigators. (R FBIS, 30 July 51).

Comments: The recent appointment of Vice Admiral Kuznetsov as Naval Minister, along with the new emphasis on the real and imagined contributions of the Russian Navy, indicates the increasing importance the USSR now attaches to the navy.

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"A" Cordial treatment of British Quaker delegation. The Embassy in Moscow considers that the cordial treatment received by the Quaker delegation from the UK shows that the Soviets attached some seriousness to their visit. Such attention to a Western, non-Communist, non-official delegation has been unprecedented since the immediate postwar years. Second-hand reports indicate that the Quakers were impressed by Soviet reasonableness in discussing the possibilities of reconciling East-West difficulties. The Quakers blamed the West for intransigence at Paris and felt that advantage should now be taken of the present change in Soviet tactics, as exemplified by the new publication News and by Malik's talk with the Quakers, to discuss current tensions with the USSR.

The embassy comments that the visit was successful from the Soviet viewpoint and that the Kremlin incidentally gained good advice on how to make its propaganda more convincing to the West. The embassy noted that the Quakers, convinced as they are that good cannot result from force, will not see the relation between any current change in Soviet attitude and UN military success in Korea. (C Moscow 158, 28 July 51).

"B" EASTERN EUROPE. BULGARIA. Industrialization fails to reach goal. In its report on the second quarter of 1951, the Bulgarian State Planning Commission claims a considerable increase in industrial production, but admits that implementation of the overall plan failed by 2.4 per cent. The commission specifically criticizes the following organizations for their failure to reach plan goals in the fields listed: (a) the Ministry of Industry — steel, metal processing and agricultural machinery; (b) the Ministry of Electrification — electric power and metal processing; (c) the Ministry of Supplies — food and chemical industries; and (d) the Central Cooperative Union — food industry. With respect to certain commodities Bulgarian industry failed to reach its goals by significant amounts, e.g., electric power (7.2 per cent); electric bulbs (20.2 per cent); household utensils and china (13.8 per cent), shoes (33.2 per cent), cheese (11.9 per cent) and meat (3.9 per cent). (R FBIS, 30 July 51).

Comment: In order to meet the industrial goals set by the Five Year Plan, Bulgaria needs considerable outside assistance in procuring machinery and skilled personnel — which the USSR is either unable or unwilling to furnish. The chiefs of the ministries listed above and the chief of the industrial division of the Central Cooperative Union have been sufficiently criticized by the regime during the past two years to justify their purge. It is probable, however, that they continue to remain in office as perennial scapegoats for failures that the USSR cannot or will not remedy.

"B" CZECHOSLOVAKIA. Progress report on the first six months of the 1951 plan. According to a 28 July communique of the Czechoslovak State Planning Office, the increased goals of the Five-Year Plan have been fulfilled for the first half of 1951. Industry as a whole exceeded its targets by

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1.3 per cent, and its volume of production rose by 12.5 per cent compared with the corresponding period of 1950.

The various sectors of industry over-fulfilled the plan during this period as follows: heavy industry, 100.7 per cent; light industry, 102.6 per cent; food industry 100.3 per cent. The heavy engineering industry, despite a reported rise in the volume of production over 1950, did not fulfill its plan. Shortages of raw materials, especially non-ferrous metals and rolled steel, as well as poor management, were cited as contributing causes.

In comparison with the first half of 1950, coal production increased 5.5 per cent. The production of lignite and coke surpassed the planned quotas, but that of hard coal did not. The production plan for electricity also was not fulfilled.

The communique reports that the volume of Czechoslovak foreign trade during the period was 30.1 per cent greater than in the first half of 1950. The Soviet Orbit's share of this trade rose to 56.8 per cent of the total, as against 52 per cent in 1950. The communique eulogized the aid of the Soviet Union in providing Czechoslovakia with grain, industrial raw materials, machinery, and food. (R FBIS, 30 July 51).

Comment: Despite the impressive figures representing general fulfillment, the failure of engineering production, hard coal production and electricity output to meet planned goals means that Czechoslovakia is not meeting the increased Soviet demands for heavy industrial products. The State Planning Office's admission that a shortage of non-ferrous metals exists does not jibe with the eulogistic comments about Soviet aid, but does correspond to known Czech efforts to obtain these very materials clandestinely from the West. Some of the failures can be attributed to increasing labor discontent, increased absenteeism and sporadic passive economic sabotage.

"B" RUMANIA. Government builds up justification for frontier evacuation. The arrest of "an important number of spies and provocateurs" employed by the Yugoslav Security Police" in the interest of the American espionage service" has been announced by the Rumanian Government. The accused were allegedly instructed to propagate chauvinism among the ranks of the Serbian population in the Banat region on the Yugoslav border, to agitate for the union of the Rumanian Banat with Yugoslavia, and to penetrate the ranks of Yugoslav emigres in Rumania. Rumania further charges that many of the accused have relatives in the Banat whom they were sent in to incite. (R FBIS, 30 July 51).

Comment: This is the first group of alleged Yugoslav agents slated for public trial in Rumania during the past year. Undoubtedly resulting

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from strong Western reaction to Rumania's eviction of thousands of Banat residents, (see O/CI Daily Digests, 25 and 27 June, 17 July 51), the announcement of the arrests sets the stage for the usual Communist propaganda campaign to justify police state measures.

"B" YUGOSLAVIA. Intelligence Chief expects no Satellite attack in immediate future. Yugoslavia does not expect a Soviet Satellite attack in the immediate future, according to Admiral Manola, the Yugoslav Deputy Chief of Staff and reportedly also the Chief of Intelligence. In a conversation with the US Military Attaché on 24 July, Manola stated that border incidents remained on a small scale and the only indication of danger was an unconfirmed report of a pontoon bridge installed over the Danube on the Rumanian-Bulgarian border. The US Military Attaché reports that Yugoslav military activities are completely normal; it is his impression that Yugoslav leaders are basically unconcerned over the possibility of a general war.

Comment: This report points up the frequent disparity in Yugoslav statements. In his Titograd speech on 13 July Tito declared that the border situation was becoming worse, and more recently Yugoslav leaders expressed some concern that Molotov's Warsaw speech might be the prelude to Satellite aggression against Yugoslavia. There is no evidence that border incidents have become more frequent or serious, and available intelligence appears to support Manola's statement.

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SECTION 2 (EASTERN)

"C" SYRIA. Cabinet resigns: Prime Minister Kalid al-Azm and his cabinet have tendered their resignations to the President of Syria. One of the first ministers to resign was a "Hawrani man," indicating, in the view of the US Minister, a deliberate move by Hawrani and the army to bring about the fall of the cabinet. Although Azm might be asked to form another government, Maruf Dawaiibi has been mentioned by many as a likely successor. Any government headed by Dawaiibi would include some Populists who would permit Parliament to continue with its work. (R FBID Brazzaville, 30 Jul 51; C Damascus 55, 30 Jul 51).

Comment: This report indicates that Colonel Shishakli, the Chief of Staff, continues to be the real power in Syria. Akrim Hawrani, leader of the Arab Socialist Party and a recent critic of the government, is his close friend. Although a coalition government containing some members of the Populist Party - currently in opposition - might be able to progress with the business of government, Maruf Dawaiibi, who has stated that Syria should ally with the USSR rather than with the US, would as prime minister foster anti-Western sentiment in Syria.

"B" AFGHANISTAN. Commission to attempt to obtain oil direct from Iran: The project manager for Morrison-Knudsen Afghanistan (a US construction firm) has been told by the Acting Prime Minister of Afghanistan that a commission headed by the Afghan Minister of Mines will proceed shortly to Iran to attempt to arrange for oil shipments directly from Iran to Afghanistan. Morrison-Knudsen Afghanistan has been asked to investigate the feasibility of sending Afghan tank trucks to the Iranian border if the Iranians are able to deliver oil products there. Such an arrangement would eliminate present transshipment through Pakistani territory. (C Kabul 71, 27 Jul 51).

Comment: Since Iran's oil storage facilities are full and its export outlets by sea are closed, Iran probably will welcome the Afghan suggestion. However, difficulties likely to be encountered in diverting Iranian oil carriers from their present internal distribution duties may prevent effective implementation of any agreement reached by the two countries.

"B" BURMA. Situation in central Burma deteriorating: A US Embassy officer who recently spent a week in Mandalay reports that the town is virtually surrounded by Communist insurgents and that attacks on communication facilities have increased in number and intensity. Although there is much speculation that the well-armed insurgents are being supplied from China, the Communists are also receiving arms through sales from government forces. There are no indications that the government is taking steps to halt the deterioration of law and order in the area, and the army apparently is unable to do more than defend the towns, leaving the initiative in the hands of the Communists. (S Rangoon 115, 27 Jul 51).

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Comment: The situation in central Burma has obviously taken a turn for the worse. Little improvement can be expected so long as friction between C-in-C Ne Win and the Socialists continues and the reportedly alarming deterioration of morale is unchecked. The Communists can look forward to increasing Chinese encouragement and support.

"B" BURMA/CHINA. Communist-KMT forces clash in Yunnan: Chinese Communist and Nationalist units have been engaged in heavy but indecisive fighting in southwest Yunnan, according to a spokesman of the Burmese War Office. One highly reliable report mentioned the disarming of a battalion of Chinese Communist troops in Mangshih after the defection of 200 of its members to the KMT forces. (S Rangoon 115, 27 Jul 51).

Comment: This report appears to be overly optimistic regarding KMT successes. Reliable evidence indicates that the KMT forces have suffered severe defeats at the hands of the Chinese Communists and have retreated into Burma.

"B" INDOCHINA. French considering repatriation of Chinese Nationalist internees in Indochina: The French Foreign Office appears to have receded from its former opposition to the repatriation to Formosa of Chinese Nationalist troops interned in Indochina, according to the Chinese Nationalist Minister in Paris. Although emphasizing that General De Lattre and the next French cabinet must approve any such decision, a Foreign Office official hinted that it might be possible to repatriate a few groups and then await Chinese Communist reaction. (C Paris 652, 30 Jul 51).

Comment: The Chinese Nationalist Government has been attempting periodically during the past two years to obtain permission for the internees to leave Indochina for Formosa. The French, however, have firmly refused all requests, fearing that the proposed action might provide the Chinese Communists with a pretext for intervening in Indochina.

This is the second report during the past week that the French position in this matter has been relaxed.

"B" Vietnam to draft 60,000: The Vietnam Government supplemented its recently assumed authority to conscript doctors by issuing a decree calling up a contingent of 60,000 men for a two-month military instruction period. US Minister Heath describes the Vietnam Government's series of mobilization measures beginning 15 July as "the key to De Lattre's policy" since the joint French-Vietnamese declaration of "total war" against the Viet Minh on 19 April. Heath does not believe there will be any great difficulty in drafting 60,000 men. (S Saigon 258, 30 Jul 51).

Comment: The fact that the mobilization measures represent "De Lattre's policy," and will be executed by Vietnamese who have distinguished themselves by their loyalty to De Lattre rather than by their devotion to the cause of

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Vietnamese independence, will tend to limit the effectiveness of the mobilization policy. Previous French refusal to turn over 4,000 rifles to the hard-pressed Vietnamese regional security forces in North Vietnam contrasts with their apparent ability to arm 60,000 Vietnamese under the Francophile central government of Tran Van Huu.

"C"

French general and Vietnamese official slain. Thai Lap Thanh, Governor of South Vietnam, and General Charles Chanson, Commander of French Forces in South Vietnam, were killed by the grenade of a Viet Minh terrorist in the province of Sadec, west of Saigon. (R Press Ticker Paris, 31 Jul 51).

Comment: This incident is a striking exception to the generally declining trend of terrorism in South Vietnam. It is the first time that a high ranking French officer has been killed by a terrorist. Governor Thai Lap Thanh was, despite his title, a relatively uninfluential figure in the Vietnam administration.

"B"

INDONESIA/CHINA. Communist China claims Indonesia violated international practice: A Peiping release by the New China News Agency on 25 July states that Indonesia's refusal to admit 16 new staff members of the Chinese Embassy in Djakarta is contrary to international practice. The release claims that all sixteen had obtained entry visas from the Indonesian Embassy in China. The Chinese Government has expressed deep regret over the affair and is taking up the matter with the Indonesian Government. (U Hong Kong 388, 28 Jul 51).

Comment: Although it is true that the Indonesian Charge d'Affaires in Peiping issued visas to the Chinese, the Chinese Embassy in Djakarta made no effort to inform the Indonesian Foreign Office of the pending arrival of additional staff members until three days before their ship docked. Even then the Embassy failed to provide names and positions. Indonesia, therefore, considers that the Chinese Government has deliberately ignored diplomatic procedures, and to date has refused to reconsider its decision refusing entry to the 16 Chinese.

"C"

INDONESIA. Oil workers' trade unions decide to affiliate with SOBSI. A congress of oil trade unions decided on 27 July to affiliate with Communist-dominated SOBSI, Indonesia's largest trade union federation. (R FBID Ticker Djakarta, 29 Jul 51).

Comment: It is not clear what unions participated in the congress. A loose federation of the four Indonesian oil unions - the Oil Workers Committee for Joint Action - has been non-SOBSI, although one of the participating unions was a SOBSI affiliate and another was pro-SOBSI. It is probable that these two latter unions and possibly a third, having been unsuccessful in forcing the Committee to join SOBSI, have formed their own organization and have established connections with the Communist federation.

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"C" CHINA. Hong Kong shipowner seeks reinstatement of Panamanian registry: The Hong Kong firm of Wallem & Co., Ltd., owner of the vessel Marion (3,317 gross tons), has cabled its Calcutta agents that "we undertake never to trade with Chinese ports again during the present emergency." These assurances were given in order to regain Panamanian registry, cancelled after the vessel loaded cargo in Calcutta for Communist China. In view of the owner's assurances, the US Consul General in Calcutta has no objection to restoration of the vessel's Panamanian registry. (C Calcutta 86, 27 Jul 51).

Comment: Wallem & Co., Ltd., has a long record of dealing with the Chinese Communists. The company's assurances that the vessel will not again call at Chinese ports are probably designed merely to achieve restoration of the ship's papers, so that it may clear Calcutta. If the policy of the Panamanian government continues to hamper Wallem's dealings with Communist China, the company can transfer the vessel to other registry.

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Chinese Communists concerned over losses in Korea: [redacted]
[redacted] the statement of Gen. Yeh Chien-ying, Chairman of the Kwangtung provincial government and Secretary of the CCP's South China Sub-Bureau, that China should "take advantage of the (Kaesong) peace negotiations to preserve the core of the Army," and that a continuation of the Korean conflict would have "catastrophic" effects on the Chinese Communist forces. [redacted]

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Comment: It is ironic that this same Gen. Yeh, several months ago, publicly stated that it was international Communist strategy to employ the manpower resources of Asian 'liberation' movements to force the Western powers to engage in costly attritional warfare which the latter could not long afford. Chinese Communist casualties in Korea are estimated to approach 600,000. Although intensive recruiting has restored Chinese Communist field forces to their pre-Korea numerical level of approximately 2,000,000, the Chinese have lost a significant proportion - possibly as high as 25 percent - of their best-trained and best indoctrinated troops.

"B"

Chiang Ching-kuo gains control of Nationalist press and propaganda: Chiang Ching-kuo, the Generalissimo's elder son, reportedly became dissatisfied with the efforts of Nationalist press and propaganda spokesman, Tao Hsi-shing, during the current anti-American campaign.

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He charged that Tao failed to carry out the Generalissimo's wishes and that his subordinates did not denounce the Americans strongly enough. Tao offered his resignation, and it was accepted promptly. Chiang Ching-kuo's immediate subordinate in the political bureau was appointed to replace him.

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Comment: This is another indication of Chiang Ching-kuo's anti-American attitude and his growing strength within the Nationalist government.

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"B"

Chinese Nationalists react to US memoranda on aid controls. Chiang Kai-shek was "considerably upset" by the Department of State memoranda requesting effective supervision and control of US aid. The memoranda, after some delay, were sent to the cabinet by Chiang on 27 July. Meanwhile, on 25 July the cabinet learned of the US memoranda and held a secret meeting at which Chiang Ching-kuo, the Generalissimo's elder son, opposed the US recommendations.

Foreign Minister George Yeh, heretofore considered pro-US, stated, "the US is forcing the Nationalists to the edge of surrender." This stand obviously was taken in an attempt to regain the Generalissimo's favor, since the Foreign Minister has been blamed for the exclusion of the Nationalists from the signing of the Japanese Peace Treaty.

Among those favoring the US suggestions are Premier Chen Cheng and the Governor of Formosa, K. C. Wu. Chang Chun, a former premier and close associate of the Generalissimo, was entrusted with the job of making him realize the consequences of losing US aid. Chang Chun will also attempt to convince the Generalissimo that the anti-American campaign begun over the exclusion of the Nationalists from the signing of the Japanese Peace Treaty should not be overdone and might result in the replacing of the present US Embassy staff by others less sympathetic.

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Comment: Despite the realization that American aid is essential to their existence, the Chinese Nationalists apparently are determined to advance their contention that US controls would be an infringement of the sovereignty of a free nation.

If the US remains firm, the Nationalists will be forced to yield to the controls requested. They will, nevertheless, make every effort to free themselves of US supervision.

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"B"

Non-Communists in the Peiping régime reportedly disillusioned:

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members of non-Communist parties invited to join the "coalition" government set up by the Chinese Communist Party (CCP) in the fall of 1949 are "very disillusioned with their lot." These persons feel that no non-Communist is informed of major decisions before they become public, that none occupies an important office, and that they have little authority in the posts they do hold. Further, non-Communist officials receive less real pay than their Communist colleagues and are subject to more severe punishment for malfeasance. Finally, non-Communist officials must unconditionally obey their Communist superiors, cannot express themselves as can the Communists, and are regarded by the Communists as inferior beings. The consensus is that non-Communist officials "have become slaves" and that their parties "are only puppets" of the CCP.

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Comment: This account has in general been confirmed by all sources and is a good summary of the status of the puppet parties and their members.

"C" New blow at US missions. The Peiping regime has ordered all Chinese Christian churches and organizations "immediately (to) sever relations" with American missions and other missions supported by US funds, and has further ordered "all such missions (to) cease their activities in China." The decree of 27 July provides for the departure of all US missionaries other than those who are still useful to the regime or are accused of crimes against the regime. (R FBID Peiping, 30 Jul 51).

Comment: This step in Peiping's frank campaign to eliminate US influence from China and to transform Chinese religious groups into puppets of the regime has been anticipated. It has long been apparent to most missionaries that they had no future in Communist China. Missionaries comprise the majority of the 25 to 30 US nationals now imprisoned in Communist China, and other arrests are expected.

"C" Communists plan to continue aid to Indochina at present level: A decision to withhold overt support from the Democratic Republic of Vietnam (DRV), but to continue the "secret infiltration" policy was reportedly made at a 28 to 30 June meeting of Chinese, Soviet and DRV representatives in Canton. Other plans allegedly reached at this conference include: (a) the use, if necessary, of Chinese troops concentrated in the border area, up to a maximum of two regiments at one time, to be infiltrated by the "old method" - i.e., use of DRV uniforms; (b) the doubling, if necessary, of the number of Chinese and Soviet advisors on duty with the DRV forces; and (c) the designation by the Soviet Union and China of 1,000 tons each of supplies per month to the DRV. [redacted] For critical security reasons this report is not to be further transmitted within the United States, or beyond the borders of the United States, without the express permission of the releasing office). 25X1A
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Comment: Conferences of this nature have been reported frequently since November, but no confirmation of the decisions allegedly taken has been received. The Communist potential to enlarge their present aid program by implementing any or all of the above points is generally conceded. Recently intensified efforts to complete road and rail contacts with Indochina indicates that such aid may be increased in the near future.

"C" KOREA. Communist troops dissatisfied with USSR's role in Korean war. A mid-June psychological warfare summary from Korea reveals that several reports have been received which indicate dissatisfaction among Communist troops over the Soviet role in Korea. This discontent centers on Soviet failure to (a) send much-propagandized material support for Communist offensives, and (b) support Chinese Communist troops, sent to Korea on Soviet orders, with Russian troops. (S Psychological Warfare Operations, 13-19 Jun 51).

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Comment: While the evidence is inconclusive, any awakening among Communist troops to the actual Soviet position in Korea would be significant.

"C"

South Korea wants foreign troops to stay a year: The ROK Director of Public Information announced on 30 July that South Korea will require foreign troops for defense and to train ROK forces. He estimates that it will be a year before the South Koreans will be in a position to defend themselves. (R FBID Ticker Reuters, 30 Jul 51).

Comment: This expression of need for external military assistance stands out in sharp contrast to recent bombastic statements of several ranking South Korean officials, including President Rhee. The general tenor of those remarks was that the South Koreans could go on to the Yalu alone if necessary.

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SECTION 3 (WESTERN)

- "A" WESTERN EUROPE. Western European Communists coordinate efforts towards labor agitation. Two members of the Italian Communist Party Directorate are expected to meet with French Communist leaders in Paris during August to coordinate a large-scale program for a peace propaganda campaign and labor agitation in both countries in September.

French and Italian Communist port workers reportedly met recently in Marseille to plan strikes and sabotage for the entire Mediterranean basin at an unspecified time. Communist seamen and dockers are also reported to have met in Amsterdam on 3 July to schedule a "big offensive" for early fall in all Northern European ports.

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Comment: Such plans would be consistent with known Communist intentions to exploit rising living costs in order to sabotage the Western defense effort. Should the Communists stress labor's economic grievances, as they did with considerable success in France last spring, they would have a good chance of touching off a serious wave of strikes.

In the past two years, however, Communist efforts to foment port strikes in Western Europe for ideological reasons have generally failed, and the current intensity of shipping activity in France and the Benelux countries further reduces the Communists' appeal to the dockers. Despite considerable unemployment in Italian ports, the Communists have also been unable to win significant support for politically motivated strikes.

- "A" FRANCE-ITALY. Prominent Communists visit USSR and Satellites. Jacques Duclos, Acting Secretary General of the French Communist Party (PCF), is reported to be on "vacation", possibly in the USSR visiting Maurice Thorez. During his absence, Francois Billoux, PCF politburo member, will direct Communist activities. The Secretary General of the Italian Communist Party (PCI), Palmiro Togliatti, is also reported to be planning an early trip to the USSR. Other prominent Italian Communists have recently left Italy for Central Europe with Prague as a possible destination.

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Comment: Inasmuch as an official Cominform meeting is reportedly scheduled for the near future, both Duclos and Togliatti may have been asked to present official reports on Communist activities. Duclos' absence from recent sessions of the National Assembly previously led to the assumption that he had gone to the USSR.

- "B" SWITZERLAND. Export controls to be effected largely through "gentleman's agreement". The Swiss Government's position on export controls, which will

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be communicated to the 1 August meeting of the Coordinating Committee's control group, is as follows:

- (1) The government will put into effect early in August measures agreed upon recently in Bern by the US and the Swiss, such measures to be retroactive to 25 June.
- (2) The government cannot compel cancellation of old contracts, but in practice many companies will cancel or delay execution.
- (3) The government cannot make a commitment in situations where Eastern and Western buyers are competing, but Swiss industry has a gentleman's agreement to give priority to Western orders.

(S Bern 163, 30 July 51)

Comment: The government's admission that it cannot in general bring pressure to bear on Swiss industry is in line with the laissez-faire policy dominating the Swiss economy. Gentleman's agreements will not prevent many Swiss industrialists from acting in accordance with their own interests, even if the East is benefitted thereby.

"C" SPAIN. UK rejects Madrid note on US-Spanish defense talks. The British Foreign Office has officially rejected the Spanish note of 21 July which complained about UK "meddling with Spanish sovereignty" in the matter of US-Spanish mutual defense talks. The Spanish Ambassador in London accepted the British Foreign Secretary's oral rejection which was couched in "mild terms" in preference to a more caustic written answer drafted by the Foreign Office. (S London 593, 30 July 51)

Comment: The Spanish note reflects the Madrid government's bitterness at UK objections to a Spanish-US agreement upon which Franco is pinning his hopes for survival. The controlled Spanish press has recently adopted a stern attitude toward critics of US-Spanish defense talks, and asserts that it is a sign of weakness to appease such "tools of the Kremlin" as the Socialist governments of Europe. The newspapers present Spain's willingness to cooperate in Western defense as a recognition of its responsibilities for protecting civilization and peace and they label the British and French governments as unreliable mercenaries.

"B" DENMARK-SWEDEN. Suggest Hague Court ruling on Soviet claim to 12-mile territorial waters. The Danish and Swedish ambassadors at Moscow submitted notes to the Soviet Foreign Office on 18 July suggesting that Denmark, Sweden, and the USSR agree to submit to the International Court at The Hague the question of whether the Soviet Union is entitled by

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international law to exercise jurisdiction over territorial waters extending 12 nautical miles off its Baltic Sea coasts. (U Copenhagen FDIS-Danish radio, 28 July 51)

Comment: Since 1946 Russian patrol boats have seized a number of Swedish and Danish fishing vessels for allegedly violating the 12-mile demarcation of territorial waters. On 31 August 1950, the USSR rejected a joint Swedish-Danish protest and reiterated its contention that the delineation of territorial waters is the sole right of the littoral state. The Danes and Swedes have been unwilling to adopt any retaliatory measures, and in fact have advised their fishermen to remain safely distant from Soviet shores with the result that actual seizures have been much fewer this year. But they (particularly the Swedes) do not wish silently to acquiesce in the Soviet claim, which they therefore continue to reject largely for the record.

"B" GERMANY. Soviet motive for Berlin trade restrictions may have shifted. US officials in Berlin believe that the USSR, having imposed restrictions on Berlin exports for such limited objectives as speeding the conclusion of an interzonal trade agreement, may now use these restrictions for broader economic and political purposes. The officials foresee a tenacious Soviet campaign to retain and develop those restrictions (centering around the demand for certificates of origin). The officials estimate that the USSR could withstand the present and proposed Allied economic counter-measures for another two months, and even longer, if Soviet objectives were, on the whole, being served.

Present countermeasures now include Western refusal to approve the interzonal trade agreement, and a partial embargo on goods to east Germany. More stringent measures have not been adopted because of French reluctance to provoke Soviet retaliation. A limited airlift with commercial planes has already begun to move the huge backlog of Berlin exports bottled up by the Soviet refusal to let them move overland through east Germany. (S Frankfurt Unnumbered, 29 July 51, S Paris 612, 28 July 51)

Comment: The USSR may have imposed the restrictions on Berlin's exports to speed conclusion of the interzonal trade agreement, which is not only valuable in itself, but serves as a cover for illegal trade. Failing in this purpose, the Soviets nevertheless observed that the restrictions could play hob with West Berlin's economy, a desirable result in the Soviet view. The Kremlin might well be willing to continue the restrictions for some time, for though they would result in depriving the Soviet zone of some valuable West German goods, the damage inflicted upon the West Berlin economy would be proportionately much greater. If, however, the West is able to move West Berlin exports by commercial or military airlift, the Soviet restrictions would be stripped of their economic effect.

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DAILY DIGEST

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence. Comments represent the preliminary views of the Office of Current Intelligence. Marginal letter indications are defined as follows:

- "A" - items indicating Soviet-Communist intentions or capabilities
- "B" - important regional developments not necessarily related to Soviet/Communist intentions
- "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

- "A" USSR. Soviet "peaceful coexistence" policy considered likely. The US Embassy in London suggests the possibility that the USSR will now seek to re-enter a period of "peaceful coexistence" during which it will attempt to increase its own strength while calculating that the West may be weakened by unpreparedness, complacency, or economic crises. As reasons for such a Kremlin choice, the embassy points to the USSR's provocation of Western rearmament, some other serious failures of Soviet policy over the past three years, and the apparent Soviet unreadiness to challenge the West in a full-scale war.

Recalling the precedent of Soviet policies in the 1920's and 1930's, the embassy characterizes the coexistence policy as a middle road between a "genuine general retreat" and an imminent showdown with the West. The USSR may even, for the time being, refrain from further local aggressions on the part of the Satellites, since the risk of thereby precipitating a general conflict may be greater than the USSR cares to incur. The embassy speculates that the "cautious" nature of Soviet policy has been upset in the Far East by the "revolutionary fervor" of the Chinese Communists but that the USSR can be more conciliatory in Europe because the Satellites are more malleable. In the embassy's opinion, a renewed attempt to achieve an Austrian Treaty should be used to test the new Soviet protestations of a desire to cooperate. (S S/S London 562, 27 Jul 51)

Comment: The only evidence of a possible change in Soviet foreign policies, aside from a professed willingness to settle the Korean War, lies in the trade and cultural fields, but activities in these fields have not so far involved any real concessions on the part of the Soviet Government. They have coincided with a rather sharp shift in the propaganda line, apparently designed to persuade susceptible non-Communist governments that a costly Western alliance against the Soviet Union is no longer necessary.

SECTION 2 (EASTERN)

- "B" EGYPT. King unwilling to break off Anglo-Egyptian negotiations. The British Ambassador is to be informed, on King Farouk's orders, that Salaheddin, the Egyptian Foreign Minister, had not been authorized to state that the Anglo-Egyptian treaty of 1936 would be denounced unless there were tangible evidence of progress in the negotiations by mid-August. The Egyptian Prime Minister has been informed of the King's opinion and is expected to respect it. The Royal Press Counselor is not disturbed by the possibility of Salaheddin's resignation from the Cabinet, which already has two vacancies, because he feels that Salaheddin's following is overrated. (TS S/S Cairo 119, 28 July 51)

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Comment: Egypt's poor showing in the Palestine campaigns convinced Farouk of the necessity for Anglo-Egyptian defense cooperation. He has previously warned government officials against breaking off negotiations with the British. Specifically, he has informed Salaheddin that he would never be forgiven should he resign over this issue. Regardless of the present strength of Salaheddin's political following, should he resign from the government he would become the focal point for those forces opposed to continuing ties with the British.

SECTION 3 (WESTERN)

"B" AUSTRIA. Gruber looks with favor upon reopening of treaty talks. Austrian Foreign Minister Gruber has welcomed the US suggestion that negotiations be resumed on the Austrian treaty, as he considers it important that the continuity of treaty efforts should not be interrupted altogether. Gruber does not feel that there is any present urgency for a meeting of the deputies, although he indicates that another attempt at a treaty could loom more important in the autumn, depending on developments of the next few weeks. Gruber considers that there is a general utility in preserving four-power contact through the Council of Foreign Ministers or the deputies. (S S/S Vienna 362, 27 July 51)

Comment: In June of this year Gruber hoped for agreement on the Austrian treaty at a Big Four meeting, and therefore regarded the deputies' sessions as unnecessary. (See OCI Daily Digest, 5 June 51.) Now, with no prospect of a Big Four meeting, Gruber has changed his attitude toward the efforts of the deputies.

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